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SUBJECT: China Economic Stimulus Plans: Plentiful But Lacking in
Details

REF: A) GUANGZHOU 80; B) GUANGZHOU 57; C) GUANGZHOU 54; D) 2008
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for internet publication.

11. (SBU) Summary: Officials in Guangdong Province have been working
overtime for months on plans to stimulate the local economy, knowing
that the central government will not be sending much new funding
their way. Party Secretary Wang Yang and Governor Huang Huahua as
well as a cast of thousands of local officials have been bombarding
print and internet media daily with descriptions of new programs,
including infrastructure projects, eased credit for companies, and
incentives designed to spur domestic demand. Leaders have also
clearly bought into the National Development and RC's "Plan for the
Reform and Development of the Pearl River Delta" (with its focus on
cross-border Hong Kong-Guangdong cooperation), viewing the upfront
stimulus and the longer term transformation of the "workshop of the
world" as part of a package that will remove redundancies in
economic production, lead to the creation of different and higher
paying jobs and enhance competitiveness and innovation. Local
government economists call this evolving packing "the beginning of a
year-long fiscal surge." However, academics are quietly raising
questions about implementation of so many large plans and the wisdom
of accelerating development plans which were designed for a shelf
life of five-to-ten years into one- and two-year timeframes.
Funding details are unrealistic, with the provincial government

sometimes offering 20-30 percent of project funding and expecting private sector sources to fund the remainder. Social stability remains at the top of every agenda, short term and long term. End summary.

Pick a Plan, We've Got Plenty!

¶2. (SBU) Guangdong officials are working on their third major government investment package in the last year with a growing focus on stimulating the local economy. The province's July 2008 announcement of its "New 10 Projects" with total investment of RMB 2.37 trillion (USD 346 billion) over four years went largely unnoticed, according to Li Luyun, Deputy Director General of the Guangdong Provincial Development Research Center in a meeting with econoffs on February 10. The plan recycled unfinished projects from an earlier plan called "10 Projects" (or perhaps better named "not so new" projects, perhaps soon to be replaced with even "newer" as a description of the next iteration of the plan). Investment in the "New 10 Projects" will go toward energy, infrastructure, transportation, public welfare, cultural and education sectors, advanced manufacturing, modern services, high tech industries, water resources, and environmental projects.

¶3. (SBU) Li also described the "16 Measures to Stimulate Economic Development" plan announced in November 2008, which primarily focuses on funding major infrastructure projects consistent with the central government's stimulus efforts. The plan's two largest components are transportation projects, including railroads, highways, ports and airports; and energy infrastructure projects, including nuclear power (ref A), improvement of electricity distribution networks and increased LNG infrastructure projects.

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Another high priority is Guangdong's "double transfer" policy to move labor-intensive, energy inefficient industries out of the Pearl River Delta to less-developed parts of the province. Funding for the plan is allocated in the following amounts:

- Transportation Infrastructure - RMB 105 billion (USD 15.4 billion)
- Energy Infrastructure - RMB 68 billion (USD 9.9 billion)
- "Double Transfer Policy" - RMB 40 billion (USD 5.9 billion)
- Support of Manufacturing - RMB 30 billion (USD 4.4 billion)
- Service Industry Development - RMB 20 billion (USD 2.9 billion)
- Environmental Protection Projects - RMB 15 billion (USD 2.2 billion)
- Irrigation Projects - RMB 12.7 billion (USD 1.9 billion)
- Agriculture projects - RMB 8 billion (USD 1.2 billion)

¶4. (SBU) Yet another plan will be announced by the end of February, according to Li. This new plan will roll November's "16 Measures" into its first plank, and extend the provincial government's stimulus efforts to eleven other non-infrastructure areas of the economy. The plan tentatively includes assistance for small and medium enterprises (SMEs) like the establishment of a re-guarantee corporation to increase their access to financing. It also has programs to help unemployed migrant workers and university graduates find jobs. In addition, it increases benefits for certain social insurance programs and expands investment in the health sector. The new plan appears to address criticism that stimulus measures so far have focused too much on infrastructure projects. However, Li's description lacked specific funding details for all but three of the twelve new measures. Even for the "16 Measures" from the November plan, Li said, the provincial government would provide RMB 400 billion directly over two years and look for RMB 1.3 trillion in financing from other sources.

¶5. (SBU) Li emphasized that the Guangdong provincial government places a high priority on these stimulus plans because it believes that the central government stimulus will not be enough. Provincial and local governments must design their own plans to address local conditions, she said. The province expects relatively little funding from the central government plan, which will offer more benefits to poorer provinces.

¶6. (SBU) Economics Professor Lin Jiang of Sun Yat-sen University told us that many people have raised questions about the provincial government's stimulus plans, arguing they include very little in the way of new ideas. Instead, the government is recycling previously-announced plans, and accelerating funding for five- and ten-year infrastructure plans into one- and two-year plans. Lin questioned whether such an approach would generate the desired effects of stimulating the economy, and ultimately, of stimulating domestic demand. Professor Ding Li of Guangdong Academy of Social Sciences (GDASS) separately told econoffs that government stimulus plans focused so heavily on previously-planned infrastructure projects that they may not achieve the government's stimulus goals.

¶7. (U) South China's online community has also raised concerns about

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whether the recently announced central government economic stimulus policy to encourage residents of rural areas to purchase household appliances will be effective. One online posting expressed the view that spending RMB 30 billion (USD 4.39 billion) on this program would benefit manufacturers and retailers more than rural residents who bring home too little disposable income to purchase big-ticket items being sold as part of the program. The online post said the people could instead benefit from direct government funding through vouchers and social welfare projects, rather than accepting a 13 percent discount on certain household appliances. Professor Peng Peng of Guangzhou Academy of Social Sciences (GZASS) raised similar concerns, expressing the view that the rural poor do not have the extra money to spend on consumer products, and that the urban middle class (those "who have money," but as wary as those in less prosperous circumstances about the future) would save any extra income they received as part of government efforts to stimulate domestic demand.

Social Stability is Everything

¶8. (SBU) Peng pointed out that every measure of the government's stimulus plans is designed with one over-arching goal in mind - social stability. Maintaining stable economic growth, minimizing the number of factory closures, improving services for unemployed workers and college graduates, each contributes to preserving social stability, according to Peng. The problem, he said, is that details are lacking, with each plan "sounding good", but perhaps one not coordinated with another, and all lacking sufficient detail about funding and implementation to assess effectiveness. In addition, Peng admitted that the focus on short-term stability may ultimately be short-sighted, as certain long-term priorities will be ignored and difficult to address the longer it takes to strategize about them. (Refs D and E).

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